The Fiscal Monitor

A Publication of the Department of Finance

Highlights

May 2006: budgetary surplus of $0.6 billion

There was a budgetary surplus of $0.6 billion in May 2006, up $0.2 billion from the surplus in the same month last year. Revenues increased by $0.9 billion, due mainly to strong growth in income taxes. Program expenses increased by $0.7 billion, primarily reflecting increases in subsidies and other transfer payments. Public debt charges were down slightly compared to the same month last year.

April to May 2006: budgetary surplus of $3.3 billion

For the first two months of the 2006–07 fiscal year, the budgetary surplus is estimated at $3.3 billion, up $1.4 billion from the $1.9-billion surplus posted in the same period one year ago. Revenues were up $2.0 billion year-over-year in the first two months of the fiscal year, reflecting strong growth in income tax revenues, slightly offset by a decline in excise taxes and duties and Employment Insurance premiums. Program expenses were up $0.7 billion due to both higher transfers and increased Defence spending. Public debt charges were $0.1 billion lower.

Note to Readers:
These results are not indicative of the results expected over the rest of the fiscal year. In most years, financial results can vary markedly from month to month and budgetary balances do not always build consistently over the course of the fiscal year. Most importantly this year, more than two-thirds of the $14.3 billion in tax reductions and expenditure increases for 2006–07 announced in the 2006 budget, including the goods and services tax (GST) reduction and the introduction of the Universal Child Care Benefit, which did not come into effect until July 1st, are not reflected in the monthly results to date. As more of the Budget measures are implemented over the coming months, the overall fiscal results are expected to fall in line with projections presented in Budget 2006.

May 2006

There was a budgetary surplus of $0.6 billion in May 2006, up $0.2 billion from May 2005.

Budgetary revenues increased by $0.9 billion, or 5.2 per cent, to $18.3 billion.

- Personal income tax receipts were up $0.9 billion or 12.0 per cent, reflecting solid growth in employment and wages and salaries.
- Corporate income tax revenues rose $0.5 billion or 20.5 per cent in May, following a 3.0-per cent decline in April.
- Other income tax receipts—withholdings from non-residents—fell by $4 million, or 1.2 per cent.

- Excise taxes and duties fell $0.5 billion, or 12.7 per cent. The decline was largely due to a $0.4-billion or 12.9-per-cent decrease in GST revenues, reflecting in part weak customs GST receipts, following a 5.0-percent rise in GST revenues in April. GST revenue can be volatile on a month-to-month basis. Customs import duties and sales and excise taxes were each down $0.1 billion. Revenues from the Air Travellers Security Charge were up $2 million.
- Employment insurance (EI) premiums declined by 7.4 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were up $0.2 billion from last year. Other revenues can be volatile on a monthly basis.

Program expenses in May 2006 were $14.8 billion, up $0.7 billion, or 5.0 per cent, from May 2005, due to both higher transfer payments and higher other program expenses.

Transfer payments were up $0.5 billion, or 5.8 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and child tax benefits, were down $0.2 billion, or 3.9 per cent, on a year-over-year basis. Elderly benefits increased 4.6 per cent due to both higher average benefits, which are indexed to CPI-inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 23.0 per cent, reflecting a decline in regular benefits. Child tax benefits were up 3.4 per cent.
- Major transfers to other levels of government, consisting of the federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs were up $0.2 billion, or 5.0 per cent, reflecting an increase in federal transfers in support of health and other social transfers under the 2004 agreement on health care.
- Subsidies and other transfers increased by $0.6 billion, or 37.1 per cent. This component is volatile on a monthly basis.

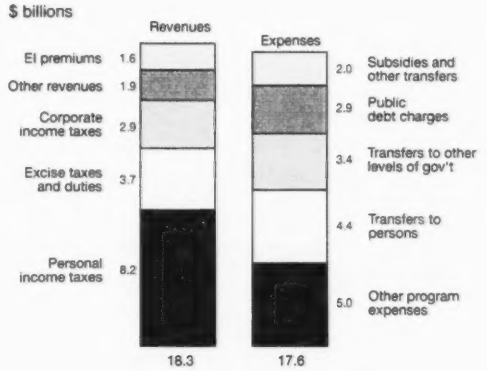
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the government's liabilities. On a year-over-year basis, these expenses increased $0.2 billion or 3.5 per cent.

Public debt charges decreased by $36 million.

April to May 2006

In the first two months of the fiscal year, there was a budgetary surplus of $3.3 billion, $1.4 billion more than the $1.9-billion surplus reported for the same period of 2005–06.

Revenues and expenses
(May 2006)

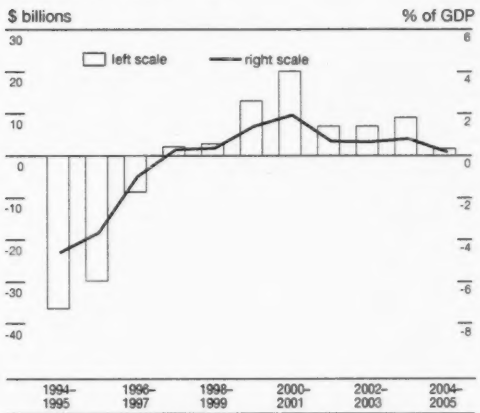


Budgetary revenues were up $2.0 billion, or 5.6 per cent, to $37.2 billion.

- Personal income tax revenues rose $2.1 billion, or 13.2 per cent, reflecting strong growth in employment and wages and salaries.
- Corporate income tax revenues were up $0.4 billion, or 8.9 per cent, reflecting the higher instalment base, which in turn reflects profit growth in 2005. In addition, while the accelerated elimination of the federal capital tax announced in Budget 2006 was retroactive to January 2006, it is not yet reflected in corporate income tax collections. The measure is expected to be reflected in instalment payments in the coming months.
- Other income tax revenues increased by $0.1 billion, or 16.0 per cent.
- Excise taxes and duties declined by $0.3 billion, or 4.2 per cent, largely due to a decline in GST revenues. GST revenues decreased $0.3 billion, or 4.6 per cent, in spite of a 7.6-per-cent increase in retail sales over the corresponding period. The decline is largely the result of unusually strong GST growth at this point last year, which fell into line with retail sales growth as the year progressed. GST growth is expected to become consistent with retail sales growth as the year progresses. Weak GST growth to date also reflects weak growth in GST on imports over the April to May period. Custom import duties were up marginally by 0.8 per cent or $4 million. Sales and excise taxes were down $0.1 billion, while revenues from the Air Travellers Security Charge were up $4 million.
- EI premiums were down 7.0 per cent, reflecting the reduction in the premium rate in January 2006.
- Other revenues were down $47 million, or 1.7 per cent.

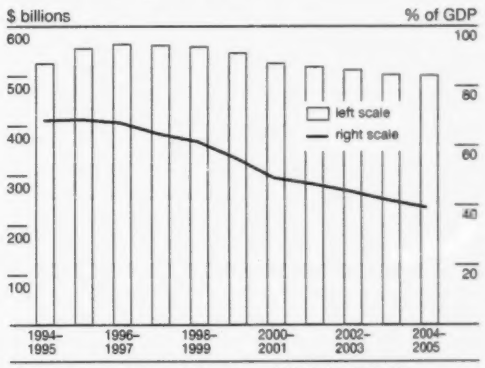
Program expenses in the April to May 2006 period were $28.4 billion, up $0.7 billion, or 2.4 per cent, over the same period of 2005–06, with the increase largely attributable to higher subsidies and transfers. Public debt charges declined by $0.1 billion.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Transfer payments, which account for over two-thirds of total program expenses, increased by $0.5 billion, or 2.9 per cent.

- Transfers to persons advanced by 0.6 per cent. Elderly benefits were up 4.5 per cent, while EI benefits were down by 8.8 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06.
- Transfers to other levels of government were up $0.2 billion, or 3.9 per cent, reflecting the impact of the 2004 agreement on health care.
- Subsidies and other transfers increased by 6.9 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 1.3 per cent. This growth was due to increases in Crown corporation expenses and Defence spending, partially offset by a decrease in spending by all other departmental and agencies.

Public debt charges were down 1.8 per cent compared to the same period last year, due to a decline in the stock of interest-bearing debt.

Financial source of $2.8 billion for April to May 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $0.5 billion in the April to May period, down $3.2 billion from the requirement in the same period of 2005–06.

With a budgetary surplus of $3.3 billion and a net requirement of $0.5 billion from non-budgetary transactions, there was a financial source of $2.8 billion in the first two months of 2006–07 compared to a financial requirement of $1.9 billion from the same period last year.

Net financing activities down $10.0 billion

The government used this financial source of $2.8 billion and a reduction in its cash balances of $7.2 billion to reduce its market debt by $10.0 billion by the end of May 2006, largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at $10.8 billion.

Table 1
Summary statement of transactions

	May		April to May	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	17,365	18,268	35,253	37,225
Expenses				
Program expenses	-14,060	-14,765	-27,714	-28,366
Public debt charges	-2,893	-2,857	-5,671	-5,571
Budgetary balance (deficit/surplus)	412	646	1,868	3,288
Non-budgetary transactions	2,779	3,380	-3,721	-472
Financial source/requirement	3,191	4,026	-1,853	2,816
Net change in financing activities	3,758	2,224	-4,390	-9,988
Net change in cash balances	6,949	6,250	-6,243	-7,172
Cash balance at end of period			10,878	10,757

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	May			April to May		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,335	8,212	12.0	15,652	17,723	13.2
Corporate income tax	2,440	2,941	20.5	4,844	5,274	8.9
Other income tax revenue	340	336	-1.2	574	666	16.0
Total income tax	10,115	11,489	13.6	21,070	23,663	12.3
Excise taxes and duties						
Goods and services tax	3,093	2,693	-12.9	5,812	5,547	-4.6
Customs import duties	273	223	-18.3	514	518	0.8
Sales and excise taxes	807	723	-10.4	1,557	1,484	-4.7
Air Travellers Security Charge	29	31	6.9	62	66	6.5
Total excise taxes and duties	4,202	3,670	-12.7	7,945	7,615	-4.2
Total tax revenues	14,317	15,159	5.9	29,015	31,278	7.8
Employment Insurance premiums	1,707	1,581	-7.4	3,461	3,217	-7.0
Other revenues	1,341	1,528	13.9	2,777	2,730	-1.7
Total budgetary revenues	17,365	18,268	5.2	35,253	37,225	5.6

Note: Totals may not sum due to rounding.

Table 3

Budgetary expenses

	May			April to May		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,396	2,506	4.6	4,798	5,012	4.5
Employment Insurance benefits	1,366	1,052	-23.0	2,526	2,303	-8.8
Child tax benefits	772	798	3.4	1,547	1,608	3.9
Total	4,534	4,356	-3.9	8,871	8,923	0.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	3,167	3,357	6.0
Canada Social Transfer	685	708	3.4	1,371	1,417	3.4
Total	2,268	2,386	5.2	4,538	4,774	5.2
Fiscal transfers	1,228	1,285	4.6	2,178	2,213	1.6
Canada's cities and communitites	0	0	n/a	0	0	n/a
Alternative Payments for Standing Programs	-254	-268	5.5	-508	-537	5.7
Total	3,242	3,403	5.0	6,208	6,450	3.9
Subsidies and other transfers						
Agriculture	340	463	36.2	476	537	12.8
Foreign Affairs and International Trade	116	409	252.6	382	435	13.9
Health	171	205	19.9	274	312	13.9
Human Resources Development	206	295	43.2	323	389	20.4
Indian and Northern Development	296	316	6.8	970	974	0.4
Industry and Regional Development	88	72	-18.2	207	180	-13.0
Other	274	284	3.6	762	801	5.1
Total	1,491	2,044	37.1	3,394	3,628	6.9
Total transfer payments	9,267	9,803	5.8	18,473	19,001	2.9
Other program expenses						
Crown corporation and foundation expenses						
Canadian Broadcasting Corporation	75	115	53.3	280	330	17.9
Canada Mortgage and Housing Corporation	219	190	-13.2	368	380	3.3
Other	385	413	7.3	799	807	1.0
Total	679	718	5.7	1,447	1,517	4.8
Defence	1,068	1,119	4.8	1,884	2,153	14.3
All other departments and agencies	3,046	3,125	2.6	5,910	5,695	-3.6
Total other program expenses	4,793	4,962	3.5	9,241	9,365	1.3
Total program expenses	14,060	14,765	5.0	27,714	28,366	2.4
Public debt charges	2,893	2,857	-1.2	5,671	5,571	-1.8
Total budgetary expenses	16,953	17,622	3.9	33,385	33,937	1.7

Note: Totals may not sum due to rounding.

Table 4

The budgetary balance and financial source/requirement

	May		April to May	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	412	646	1,868	3,288
Non-budgetary transactions				
Capital investing activities	8	37	116	12
Other investing activities	40	-35	-368	520
Pension and other accounts	-253	-397	-821	-176
Other activities				
Accounts payable, receivables, accruals and allowances	2,847	3,151	-3,920	-2,772
Foreign exchange activities	-105	412	773	1,470
Amortization of tangible capital assets	242	212	499	474
Total other activities	2,984	3,775	-2,648	-828
Total non-budgetary transactions	2,779	3,380	-3,721	-472
Net financial source/requirement	3,191	4,026	-1,853	2,816

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	May		April to May	
	2005	2006	2005–06	2006–07
	($ millions)			
Net financial source/requirement	3,191	4,026	-1,853	2,816
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transaction				
Canadian currency borrowings				
Marketable bonds	2,776	758	1,667	1,061
Treasury bills	1,200	2,800	-4,500	-7,700
Canada Savings Bonds	-78	-43	-139	-126
Other	0	-285	0	-345
Total	3,898	3,230	-2,972	-7,110
Foreign currency borrowings	-195	-948	-1,424	-2,776
Total	3,703	2,282	-4,396	-9,886
Cross currency swap revaluation	0	0	0	-2
Unamortized discounts on debt issues	55	-57	6	-85
Obligations related to capital leases	0	-1	0	-15
Net change in financing activities	3,758	2,224	-4,390	-9,988
Change in cash balance	6,949	6,250	-6,243	-7,172

Note: Totals may not sum due to rounding.

For additional copies or subscription inquiries, please contact the Distribution Centre at 613 995-2855.
For other inquiries about this publication, contact Chris Forbes at 613 995-6391.
Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.
Ce document est également offert en français.
July 2006